

# Smart prepayment for a smarter market

Response to Ofgem proposals - October 2015



# Introduction

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The Citizens Advice Service provides free, confidential and impartial advice to help people resolve their problems. As the UK's largest advice provider, the Citizens Advice Service is equipped to deal with any issue, from anyone, spanning debt and employment to housing and immigration plus everything in between. We value diversity, promote equality and challenge discrimination.

The service aims:

- to provide the advice people need for the problems they face.
- to improve the policies and practices that affect people's lives.

Citizens Advice Bureaux deliver advice services from over 3,500 community locations in England and Wales, run by 382 independent registered charities. Citizens Advice itself is also a registered charity, as well as being the membership organisation for these 382 member bureaux.

Citizens Advice Scotland, its 61 member bureaux, consumer helpline and Extra Help Unit form Scotland's largest independent advice network. CAB advice services are delivered using over 250 service points throughout Scotland, from the islands to city centres, and through our helplines. Together, the Citizens Advice Service in Scotland helped over 323,000 people with over 1 million advice issues in 2014/15.

Consumer Futures transferred to Citizens Advice and Citizens Advice Scotland in April 2014 as part of the UK Government's consumer landscape changes, and is a GB-wide service.

# Initial comments

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Citizens Advice and Citizens Advice Scotland (hereafter referred to jointly as The Citizens Advice Service) welcome the opportunity to respond to this consultation on smart prepay. We have been involved extensively in Ofgem's Consumer Empowerment and Protection project, attending meetings, providing evidence through information requests and other data, and presenting findings to industry to support our calls for better consumer outcomes.

Smart meters offer an opportunity to improve the payment options, information and service available to prepay consumers. We want the potential of a smart world to transform the prepay market to become a reality.

The Citizens Advice Service broadly supports the proposals that Ofgem has made for smart prepayment in this consultation document. The proposed changes to the Social Obligations Reporting (SOR) data will go some way toward better understanding self disconnection - however we would welcome a commitment that the regulator will consider whether suppliers will be expected to monitor and report on frequency of top up in the future. It is in both supplier and consumer interest that the potential for smart meter data to prevent self-disconnection is explored as soon as possible – this should not be delayed until post 2020.

Prepayment meter users are more likely to be on lower incomes and/or in vulnerable circumstances compared to the average energy customer<sup>1</sup>. It is essential that these consumers are able to realise the benefits of smart metering - from cheaper and more tariffs to virtual top-ups to tailored support and communications from suppliers. The innovation and flexibility anticipated with smart prepay should make it a more attractive option to all consumers and should also address the stigma that has traditionally been associated with prepay energy.

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[https://www.citizensadvice.org.uk/Global/Migrated\\_Documents/corporate/topping-up-or-dropping-out.pdf](https://www.citizensadvice.org.uk/Global/Migrated_Documents/corporate/topping-up-or-dropping-out.pdf)

# Response to consultation questions

## Chapter: Two

Question 1: Do you agree with our assessment of the Change of Supplier solution as developed by industry, including in terms of its potential unintended consequences and its applicability to all smart meters irrespective of consumer type (domestic and non-domestic)?

The Citizens Advice Service agrees that the solution proposed by industry – to leave the meter in credit mode - is the most appropriate way forward. The focus must be to ensure that the solution provides the strongest mitigation against the risk of a consumer going off supply. We agree with the regulator that this is also the appropriate solution for non domestic consumers - at least for the time being and in the absence of formal evidence as to demand in that market. We also welcome industry consideration of 'worst case' scenarios and the potential solutions, for example by putting in place a backstop mechanism which allows suppliers to exchange Unique Transaction Reference Numbers (UTRNs).

We are pleased Ofgem recognises that the proposed solution may not be enduring, particularly when measures to enable faster switching are implemented. It is crucial that the risks associated with the solution are reviewed by suppliers and the regulator: unfortunately prepay consumers continue to receive a lesser service in relation to switching, and this will continue to be the case until there is parity in the supplier switching experience between standard credit and prepay.

It is essential that suppliers are aware of any potential unintended consequences of leaving meters in credit mode at change of supplier, and that there is consistency in the way that consumer problems as a result of the switch are resolved. We are pleased Ofgem recognises that from a smart prepayment consumer's perspective, the notion of temporarily being in credit mode when transitioning between suppliers could be confusing. Communication and information provided to the consumer must be clear and unambiguous.

The regulator asks suppliers to consider the implications for contractual terms and conditions: it is imperative that this sort of information is not buried or hidden in small print. The Citizens Advice Service strongly recommends suppliers consider how they can communicate essential information in a more accessible and meaningful way. Our research [Smart and Clear](http://webarchive.nationalarchives.gov.uk/20140728011208/http://www.consumerfutures.org.uk/files/2014/01/Smart-and-clear.pdf)<sup>2</sup> highlights a number of principles that should underpin all communications with consumers during the smart meter rollout. It is also essential to ensure that suppliers learn from other markets where appropriate - for example [recent work on smarter communications by the Financial](#)

[Conduct Authority \(FCA\)](#)<sup>3</sup> considers the way that terms and conditions are presented and discussed with consumers.

The Citizens Advice Service welcomes the regulator's position that it would not be considered fair for a supplier to disconnect a prepayment meter consumer for non-payment whilst a meter is in credit mode. The existing licence conditions on taking ability to pay into account when agreeing any debt repayment are crucial. We are concerned about the consumer experience during any problematic prepayment meter switch: it is well understood that prepay customers have historically been less likely to switch, and smart metering should facilitate simpler switching, with more choice and an attractive range of tariff options for prepay consumers. A prepay consumer who, as a consequence of switching, endures a period of time with a meter in credit mode and builds up debt could potentially be put off from engaging in the market again. The Citizens Advice Service expects all suppliers to ensure the licence conditions, key principles on ability to pay and good practice on repayment more generally are applied, and that communication with the consumer is paramount throughout the period in credit, offering payment plans and options to mitigate against debt build up. We understand that the industry are considering whether there will be an agreed minimum monetary compensation amount for consumers if a switch is delayed under the new voluntary Switching Guarantee. We support such a move: if these rules are agreed and in operation they could give consumers confidence as well as incentivise suppliers to address issues in a timely manner.

We welcome Ofgem's emphasis on communication in relation to refunding credit, and agree that suppliers should be expected to actively consider how to manage timely refunds to consumers.

[Question 2: Do you agree with our proposal to monitor suppliers' offerings of key smart prepayment functionalities through our Social Obligations Reporting?](#)

Yes – The Citizens Advice Service agrees that extending data collection via Social Obligations Reporting will be beneficial.

[Question 3: Do you agree with our proposed data points for inclusion in the SOR \(on the availability of key smart prepayment functionalities\), the frequency with which we propose to collect them, and the starting point for collecting them?](#)

Yes – we agree with the suggested data points, frequency and starting points.

Smart metering should enable greater, easier and more frequent data collection about consumption and payments. The Citizens Advice service is also keen for the regulator to consider whether there is scope to encourage suppliers to capture information about the average vend amount, and the average frequency of vend during the reporting period, as this will be useful in helping to understand

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<sup>3</sup> <http://www.fca.org.uk/static/channel-page/dp-smarter-comms/dp-smarter-comms.html>

self-disconnection. We also invite the regulator to consider whether it is possible to collect information about how many incidents there are of consumers with smart prepay used emergency and/or friendly credit during the reporting period.

Question 4: Do you agree with our assessment on those areas where we do not propose to take any further action.

#### *Recording meter location*

The Citizens Advice Service has in the past advocated for greater cohesion and industry led collaboration on recording meter location. With smart meters suppliers will no longer need to visit a consumer's property in order to switch a smart meter from credit to prepay. Whilst we understand and welcome the fact that smart prepay and technological advances should mean that meter location is less of an issue, it may still be essential in case of Wider Area Network (WAN) or Home Area Network (HAN) failure. We also understand that Ofgem does not see this as a regulatory issue; however The Citizens Advice Service is keen to encourage the regulator to maintain some continued oversight of these issues, and we urge suppliers to work together to consider options to record meter location data.

In addition, The Citizens Advice Service continues to see cases in bureaux of consumers with issues around incorrect or missing meter location information (MPAN / MPR numbers). This can lead to all sorts of issues around billing and/or over and under payment of debt - issues that smart metering should solve. Whilst we understand that the central registration system to enable faster switching may clear up a number of data issues, we remain concerned about any wider implications or unintended consequences for smart prepayment meter consumers.

Lastly, we are not aware of the latest developments regarding Prepayment Meter Interface Devices (PPMID). It is our understanding that having accurate meter location information will ensure that a supplier is aware of whether a PPMID should be supplied, and meter location information remains a key factor in ensuring consumers are protected and able to top up.

#### *NO WAN and no access – the 'perfect storm' scenario*

The Citizens Advice Service recognises and agrees that the existing regulatory framework, together with the technical and functional specifications in the Smart Metering Equipment Technical Specifications should provide the necessary protection for consumers. Suppliers are expected to have the processes in place to support consumers to ensure that they can still top up and ensure an energy supply. We are keen to understand what steps Ofgem is planning to take to monitor this and whether the regulator anticipates any potential good practice examples of supplier behaviour/process in such a scenario.

## *Self-disconnection*

The Citizens Advice Service welcomes the proposed changes to the SOR data which should provide an overview of supplier activities to mitigate the risk of self-disconnection. We understand Ofgem is reluctant to require suppliers to collect and analyse data which could help to identify and address self-disconnection, due to potential complexity in the early days of the smart rollout. Smart meter 'last gasp' functionality should alert a supplier when a meter is disconnected. We are interested to explore these complexities further and understand whether any data could be collected now, to progress our understanding of consumer behaviours regarding vend and self-disconnection.

In 2012 the Energy and Climate Change Committee asked energy suppliers a number of questions about how they monitor vend, and we explored this further in our 2013 research [topping up or dropping out](https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/energy-policy-research-and-c onsultation-responses/energy-policy-research/topping-up-or-dropping-out/)<sup>4</sup>, which followed up on these questions and urged suppliers to consider carefully how to harness existing technology and consider developing other measures, techniques and tools to establish patterns of top-up, and monitor them in order for suppliers to be alert to potential problems that consumers are having with staying on supply and topping-up the meter. Closer monitoring of energy accounts, including top-up frequency, can also assist in identifying fraud or meter tampering or establishing whether there is an empty property. We expect suppliers to be thinking from the commencement of rollout how they can use the data they have on prepay consumer top ups to improve their service and support to benefit consumers.

Ofgem's proposed changes to the SOR data will go some way toward better understanding self disconnection - however we would welcome a commitment that the regulator will consider whether suppliers will be expected to monitor and report on frequency of top up in the future. It is in both supplier and consumer interest that the potential for smart meter data to prevent self-disconnection is explored as soon as possible – this should not be delayed until post 2020. The Citizens Advice Service urges Ofgem to consider whether other, non regulatory interventions in this area may be useful - for example if it is not possible to monitor via the SOR, regular meetings to share good practice in identifying/supporting consumers who have self disconnected could be useful.

## *Change of tenancy*

The Citizens Advice Service agrees that smart meters have the potential to vastly improve the current issues surrounding the current change of tenancy process. We strongly agree with the regulator that whilst smart technology can improve this

area, the onus must be on suppliers to engage effectively with consumers to influence consumer behaviour and engagement.

Our Extra Help Unit often supports consumers who are experiencing problems following a change of tenancy, and we will continue to monitor this issue with the smart rollout.

### *Customer communications*

Ofgem recognises that traditional prepayment meter customers often express concerns about a lack of information, engagement and communication from suppliers. Whilst smart metering should help to improve this, The Citizens Advice Service has significant concerns about the impact on consumers who are presented with a smart meter in prepay mode but have not gone through the SMICoP experience with a smart meter at all/with a smart meter in prepay mode (for example when moving into a new property with smart prepay, or in circumstances of 'install and leave'). Such issues may serve to cancel out, amongst other things, the anticipated benefits to change of tenancy process associated with smart meters. In addition, it would be useful for the regulator and suppliers to consider how landlords (e.g. housing associations or landlord representative bodies) might be useful partners with any communications about smart meters, to ensure that they new tenants are able to realise the benefits of the smart meter/IHD, and know where to go for advice and support if necessary.

We join the regulator in urging suppliers to consider the scenarios it has set out, and ensure that customer communication is paramount when considering how consumers will engage with smart prepay. There must not be any assumption that consumers are familiar with the technology, and it may be necessary to consider how advice and support is provided in scenarios where the smart meter is in situ but the consumer is new to the property, in particular through existing engagement routes such as SMICoP (which does not currently cover tenancy switch overs).

## **Chapter: Three**

Question 5: Do you agree with our assessment that the existing regulatory arrangements are fit-for-purpose for a smarter market, and that they pose no undue barrier to innovation?

### *7 day notification period*

We welcome Ofgem's clarification that the applicability of the 7 day notification period will continue to apply where a customer has not, within the requisite period, paid all charges due to a supplier.

### *Payment differentials*

We understand that the existing regulatory requirements are fit for purpose for smart prepay, as suppliers can charge differently for different payment methods,



where this reflects genuine differences in underlying costs between those payment methods. Further views on this are set out in our response to Question 10.

### *Offering cash as a payment option*

Comments on specific questions below.

Question 6: Do you agree with our proposal to update the Safe & Reasonably Practicable Guidance? If not, please: explain why, suggest and explain any alternative action we should consider.

It is important the regulator and suppliers recognise that [3.6%, or nearly 2 million adults, remain unbanked in Britain today and that only about half of the unbanked would like a bank account<sup>5</sup>](#).

The Citizens Advice Service understands and supports Ofgem's desire to encourage innovation with smart prepay, and we acknowledge that this could potentially be stifled by the wording in the current safe and reasonably practical guidance in relation to cash top ups. However, cash remains an important 'backstop' payment option for *all* consumers, and could be necessary for any number of reasons - from a WAN outage to a problem with a bank account/ credit or debit card or a change in personal financial circumstances.

Ofgem suggests that it would expect available cash payment channels to remain accessible to consumers, even if they have actively opted for alternative payment methods. We are keen to better understand how this would work for a consumer who has actively asked to have smart prepay and exclusively use alternative top up methods. If these consumers need/want to top up by cash would they then pay a penalty for doing so - or might they be charged a different rate?

Since 2009, as a result of continued focus and interventions by both Ofgem and the statutory consumer watchdog, there have been great improvements to the way that the majority of energy suppliers assess 'ability to pay' when agreeing debt repayment rates. As Ofgem is aware, with many of the new entrants into the market over the last two years we have often experienced an increase in cases of high debt recovery rates. The principles and good practice in this area have had to be explicitly communicated and learned. The Citizens Advice Service is concerned that merely placing an 'expectation' on industry to ensure suppliers provide consumers with the relevant information so that they can choose to have prepay without cash as a top up method is not enough. We recommend Ofgem consider further how suppliers could more actively monitor and record customer payment methods, and seek assurance from suppliers that any consumer choosing not to pay by cash has access to at least two different, separate, ways to top up. These payment methods should be founded on two different systems, to ensure that if there is a problem (for example the WAN goes down) that the alternate payment

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<sup>5</sup> <http://www.financialinclusioncommission.org.uk/facts>

method is still available. It will also be necessary to provide more detailed guidance, particularly for new entrants into the market who may not be as familiar with the obligations on suppliers to protect vulnerable consumers.

Question 7: Do you agree with our proposed amendments to the Safe & Reasonably Practicable Guidance? If not, please: explain why suggest and explain any alternative amendments we should consider. (Also see appendix 4 for detail on proposed changes)

We are concerned that the amendments do not reflect the expectation in the consultation document that available cash payment channels should remain accessible to consumers who have actively opted to use alternative payment methods.

Question 8: Do you agree with our proposal to monitor, through our Social Obligations Reporting, the number of smart prepayment consumers who have actively asked for alternative top-up methods so as not to require cash as a payment option?

We understand that Ofgem is proposing to collect this data annually. It is difficult to understand whether this is sufficient as we do not have a proper understanding of the potential impacts on consumers who've opted out of cash top up but who may need to use it occasionally. We expect that the regulator will also be discussing the take up of smart prepay without cash top up with suppliers in other, related fora.

Question 9: Do you agree with our proposed data points for inclusion in the SOR (on cash as a payment option and smart meter consumers on prepayment), the frequency with which we propose to collect them, and the starting point for collecting them? If not, please: explain why suggest and explain any alternative(s)

no comment

Question 10: Please provide any views on the risks and merits of differentials between smart and traditional prepayment tariffs. Please also provide views on mitigating actions that could be taken by parties, including by Ofgem, to address any perceived risks.

The Citizens Advice Service understands that during the smart meter rollout there might be a potentially confusing proliferation of tariffs as suppliers innovate and charge differently for different payment methods. This is a difficult area to comment on without detailed knowledge about supplier strategies to ensure that their existing prepay meter customers will be switched onto smart meters in a timely fashion as part of the rollout: we hope this will partly be addressed when the Data Communication Company (DCC) goes live. We have some concerns that

smart prepay infrastructure may not be in place until the later stages of the rollout, and if that is the case this may well be a bigger problem.

Broadly, we agree with the assertion that smart metering can transform the experience of prepayment consumers, in terms of both service and cost. We also welcome the aim to avoid unintended consequences for traditional prepayment consumers who do not yet have access to a smart meter, and the expectation on suppliers to think about what is right for all consumers as they structure their tariffs. This will be even more pertinent towards the end of the rollout out, when traditional prepayment infrastructure is phased out. We discuss our concerns about this in more detail in our response to question 12.

It is important that Ofgem commits to monitoring the differentials between these tariffs, and has a clear understanding of the number of consumer accounts/properties that are disadvantaged and cannot access smart tariffs. This will be crucial if it becomes clear there is likely to be a small minority of prepay users where a smart solution is not possible.

#### Chapter: Four

Question 11: Do you agree with our proposed approach to micro-businesses? If not, please: explain why provide any evidence to support your position provide details on which existing arrangements we should consider extending to micro-business consumers, and why

If prepayment functionality does, as most stakeholders expect, expand considerably in the non-domestic market, we understand that it is likely to look very different to the existing, traditional domestic prepay market. Through discussions with suppliers we understand that they anticipate smart prepay in the non-domestic market will not utilise cash as a top up method, focusing on online payments. In general we welcome this, and consider it a positive development for the the market, particularly where it is an alternative to disconnection, from which non-domestic consumers have very few protections. It should also eliminate the need for suppliers to demand security deposits - important in a market for which there is no duty to supply.

The Citizens Advice Service has some limited information on existing non-domestic smart prepay, principally from the smaller non-domestic suppliers who have been fitting them during the foundation stage. Generally, these suppliers often have a record of weak debt and disconnection processes, and these examples do not give a picture of the market in the future. However, given the potential increase in new entrants into the market it is important to ensure all suppliers are aware of their duties and obligations, as well as best practice, in the debt and disconnection process. We have provided a case example below to highlight concerns we have

around quick recourse to prepay after one only missed direct debit and very poor communications.

### **Case Example**

*The consumer owns a small grocery store. The smart meter was changed to prepayment mode when attempts to take a direct debit payment failed.*

*The direct debit failure meant that the consumer had breached their contract and they were put on different rates. They went from a 26p/day standing charge and unit rate of 11.6p/unit, to a £1.03/day standing charge and unit rate of 13.6p/unit. There was a commitment to reduce the unit rate to 12.1p/unit if payments were made regularly for a period of approximately two months.*

*The consumer remained on supply, however he was unhappy at the changing information that was provided about the payments that would be required each week. One week he would be asked to pay less than £50, on other occasions he would be asked to pay over £100. The debt recovery charge was just over £1 per day. There was a lack of clarity about how these contract rates were being calculated. The readings used to calculate the amount were always a few days out of date leading to further confusion.*

*The EHU discussed the situation with the supplier although they refused to set up a payment plan. At that point they did say that if the consumer continued to make the payments then they would reduce the tariff rate and would consider moving back to a standard direct debit 'credit mode' tariff if payments continued on time for a period of 6 months.*

Given the lack of evidence to the contrary, at this stage we are in the main comfortable with regulation (excluding the change of supplier element) not being extended to this market, with the clear proviso that as and when the market evolves so do the rules.

If the Extra Help Unit and/or Consumer Service cases indicate persistent detriment across multiple suppliers the Citizens Advice Service will consider our position and discuss any concerns or changes with Ofgem. We are also aware of Ofgem's specific (quarterly) monitoring in this area and urge the regulator to operate a triage policy, discussing concerns with suppliers early on in the process before more non domestic consumers are impacted, and before bad policy/practice become more commonplace.

## Chapter: Five

### Question 12: Please provide any general views on phasing out the traditional prepayment infrastructure

Traditional prepayment meter users are more likely to be on low incomes or vulnerable and will be at even more of a disadvantage if they cannot access smart prepay tariffs: it is essential that every action is taken to ensure they are not left until last in the smart meter rollout, and have to pay higher costs, for longer, as a result.

It should also be borne in mind that Communications Services Provider (CSP) contracts bind them to 99.25% coverage not 100% (more than 150,000 households will potentially be excluded). There will almost certainly be a group of consumers unable to benefit from smart metering at the end of rollout in 2020<sup>6</sup>. It is essential that there are solutions for these consumers, and that these gaps are filled. There are also likely to be some properties in which the HAN does not function as it should, even following the introduction of dual-band comms hubs. We understand that up to 1.5 million consumers may not have an option to have a smart meter, and even with a solution for multi-dwelling units, this would leave a missing 5 per cent of consumers without a HAN.

Consumers without HAN or WAN should not face spiralling costs or declining service as suppliers' traditional infrastructure becomes uneconomic, especially for prepayment meter consumers.

Ends.

October 2015